

**ANNUAL
REPORT**



**WHITE
PAPERS**



**DATA
SHEETS**



**WIRELESS 9-1-1
INFORMATION**



Announcement details
from 11/17/00 webcast.



3rd Quarter Earnings

Marking the way for Emergency Response

Thirty years ago, the United States created a telephone network that revolutionized the public safety industry. In an emergency, most people could pick up a telephone, dial 9-1-1, and know that help was on the way. Today, the 9-1-1 system is still effective, but the infrastructure behind 9-1-1 hasn't changed much from the time of its inception-leaving it unable to bridge gaps to some new communication technologies.

SCC is leading the way in creating innovative products and services for Enhanced 9-1-1 (E9-1-1) that take advantage of today's technologies. We're making E9-1-1 better than ever before-delivering accurate information, faster, to the right people-when seconds count. And our customers-Incumbent Local Exchange Carriers (ILECs), Competitive Local Exchange Carriers (CLECs), Integrated Communications Providers (ICPs), and Wireless Carriers-can outsource their 9-1-1 management requirements to us saving them time and money and allowing them to focus on their core business.


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- 00 [SCC Communications BroadRiver to Deliver Customer-Focused](#)
- 00 [SCC Communications Alliance with Cell-Lo](#)
- 00 [WINfirst Selects SCC Communications to](#)
- 00 [1-1 Service to Custo](#)
- 00 [SCC Communications Reports Record Third](#)
- 00 [Revenue](#)



[SCC Communications
Definitive Agreement to
Lucent Public Safety](#)





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Our Vision

SCC Communications Corp. is the leading provider of 9-1-1 Operations Support SystemsSM (9-1-1 OSSSM) services to Incumbent Local Exchange Carriers (ILECs), Competitive Local Exchange Carriers (CLECs), integrated communication providers (ICPs), and Wireless Carriers in the United States.

In addition to our OSS leadership position, it is also our goal to be the leading national provider of complementary services to ILECs, CLECs, and Wireless Carriers. We continue to focus on developing innovative and value-added solutions to provide customers with a comprehensive system for managing the large amounts of dynamic subscriber information needed for an effective 9-1-1 system.

Corporate Strategy

- Maintain and extend our leadership position in the E9-1-1 wireline data management market
- Capitalize on emerging Wireless Carrier opportunities
- Maintain and extend our leadership position in national Clearinghouse services for CLECs
- Continue to provide essential services to telecommunications carriers
- Continue to develop applications for new commercial products both nationally and internationally

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SCC
Innovation saving lives

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About SCC

Our History

SCC Communications Corp., founded in 1979, is the largest and fastest-growing provider of 9-1-1 services and telecommunications technology systems in North America. Headquartered in Boulder, Colorado, SCC provides products that are utilized directly or indirectly by more than 160 million people around the world.

SCC's primary offering is the large-scale data management and delivery infrastructure necessary to deliver Enhanced 9-1-1 (E9-1-1). From the company's inception, however, we have been well known for the development of innovative and value-added products and services for the public safety industry.

A History of Firsts

SCC's track record of significant industry "firsts" speaks for itself. No other organization in the public safety realm can claim so many firsts:


- First fault-tolerant, geographically distributed Automatic Location Identification (ALI) and Selective Routing (SR) systems for E9-1-1
- First satellite-based E9-1-1 data delivery system
- First wireless 9-1-1 ALI system
- First spatial coordinate-based mapping display and management system
- First coordinate-based E9-1-1 call control system
- First network-based E9-1-1 Automatic Call Distribution (ACD) system
- First Internet application for E9-1-1 (9-1-1Net(r))

These accomplishments were made possible only through a cultural commitment to innovation and a strong fiscal contribution of corporate resources.

And, over the years, we have seen our role in the industry continue to expand. For example, because of our expertise, we actively take part in the development of standards to assist in the application of new 9-1-1 technologies in the rapidly evolving world of telecommunications.

Our commitment to public safety continues to be widely recognized. So today, just as in 1979, SCC devotes significant effort toward the research and development of enhanced products, services, and software for the public safety market place.

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About SCC

Executive Team



George Heinrichs

Mr. Heinrichs is cofounder, president, and CEO of SCC Communications Corp. He has led SCC's growth as it has become the nation's largest provider of 9-1-1 technology solutions and services for the telecommunications and public safety industries. Prior to founding SCC, his public safety career included ten years of active involvement in state and national advisory boards for law enforcement information systems.



Stephen Meer

Mr. Meer is cofounder, vice president and CTO of SCC Communications Corp. In this capacity he works with the telecommunications and public safety industries to implement innovative technologies and systems in the 9-1-1 field. A 10-year veteran of public safety and a Charter-Certified Emergency Number Professional (ENP), Mr. Meer is actively involved in the key standards and technical committees associated with 9-1-1 and other emergency communications industries.



Michael Dingman

Michael Dingman is the CFO of SCC Communications Corp. Dingman brings nearly two decades of diversified financial management experience to SCC. Prior to joining SCC, he served as CFO and treasurer of RMI.NET, Inc. He also has extensive experience in financial consulting as president and founder of an investment consulting firm.

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Company Profile

SCC Communications Corp. is the leading provider of mission critical transmission services for the telecommunications and public utility industries. As a direct provider of telecommunications services and data and local government, we provide scalable, high-volume, data management services, secure, reliable network interfaces, and field delivery of timely, accurate data. As a result, SCC manages more traffic and wires a emergency events and services than any other company in the world.

The Year ended by SCC encompasses the entire portion of the 9-1-1 call, provides the caller's location and is critical for routing an incoming 9-1-1 call to the right public safety agency. Our system reliability is unmatched, and we have maintained extremely high levels of service availability for more than five years.

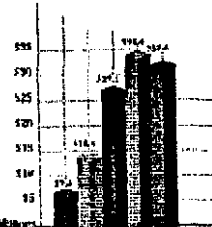
SCC works with telephone service providers on a daily basis to manage complex system interfaces and to ensure accuracy in the 9-1-1 database. These efforts ensure critical edge improvements that continue to change the face of enhanced 9-1-1 and position SCC for broader application in the growing telecommunications industry.

(Dollars in thousands, except per share data)

	1995	1996	1997	1998	1999
Statement of Operations Data					
Revenue	\$1,554	\$2,137	\$2,137	\$2,137	\$2,137
Operating Expenses	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)
Operating Income	\$454	\$1,037	\$1,037	\$1,037	\$1,037
Non-Operating Income					
Income Before Taxes	\$454	\$1,037	\$1,037	\$1,037	\$1,037
Income Tax Expense	(100)	(100)	(100)	(100)	(100)
Net Income	\$354	\$937	\$937	\$937	\$937
Basic Earnings Per Share	\$0.35	\$0.94	\$0.94	\$0.94	\$0.94
Diluted Earnings Per Share	\$0.35	\$0.94	\$0.94	\$0.94	\$0.94
Balance Sheet Data					
Current Assets	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Current Liabilities	(500)	(500)	(500)	(500)	(500)
Long-Term Assets	\$500	\$500	\$500	\$500	\$500
Long-Term Liabilities	(200)	(200)	(200)	(200)	(200)
Shareholders' Equity	\$300	\$800	\$800	\$800	\$800

1995
1996
1997
1998
1999

Total Annual Revenue



Annual Operating Income (Loss)



1999 Revenue Growth by Business Unit



Dear Shareholders:

Our company has been a public company since August 1988. In that time, we have grown from a small company with a few employees to a company with over 100 employees and a significant presence in the data management services industry.

Our primary business is the provision of data management services to our customers. We have a strong track record of providing high-quality services to our customers, and we are confident that we will continue to do so in the future.

The Board of Directors has approved a dividend payment of \$0.10 per share for the third quarter of 1990. This dividend will be paid on October 1, 1990, to shareholders of record as of September 1, 1990.

We are pleased to announce that we have entered into a new contract with our largest customer, which will increase our revenue for the next year. This contract is a testament to the quality of our services and the trust that our customers place in us.

We are also pleased to announce that we have been named one of the "Top 100 Data Management Companies" by Data Management World magazine. This recognition is a testament to our company's success and the quality of our services.

We are confident that we will continue to grow and succeed in the future. We are grateful to our shareholders for their support and investment in our company, and we look forward to continuing to provide them with a strong return on their investment.

Sincerely,
George K. Hirsch
President and Chief Executive Officer



The company's revenue in 1989 was \$1.4 million, an increase of 10% over 1988. This increase was primarily due to the completion of the contract with our largest customer, which was completed in the third quarter of 1989.

In addition, the company's revenue in 1989 was also increased by the completion of the contract with our second largest customer, which was completed in the fourth quarter of 1989.

We are pleased to announce that we have entered into a new contract with our largest customer, which will increase our revenue for the next year. This contract is a testament to the quality of our services and the trust that our customers place in us.

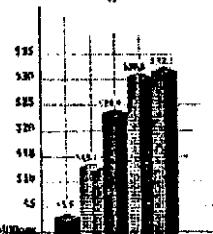
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We are confident that we will continue to grow and succeed in the future. We are grateful to our shareholders for their support and investment in our company, and we look forward to continuing to provide them with a strong return on their investment.

Sincerely,
George K. Hirsch
President and Chief Executive Officer

1985
1986
1987
1988
1989

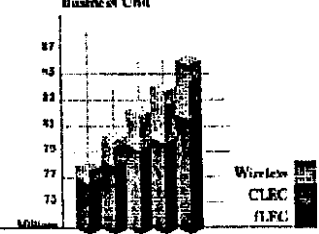
Annual Revenue from Data Management Services



Annual Revenue from License and Implementation Services



Subscribers by Business Unit



George K. Hirsch
President and Chief Executive Officer

George K. Hirsch
President and Chief Executive Officer

The SCC Contribution

It's Sunday morning and your ten-year-old impatiently runs into your bedroom to awaken you. She shakes you and calls your name, but you don't respond. She soon realizes that something is wrong and dials 9-1-1. As the calltaker answers, she identifies the problem but is unable to describe her address or location. The calltaker stays on the line and moments later, alert can be heard. You're treated for severe allergies to new prescription pills and will go home that evening—thanks to enhanced 9-1-1.

Dialing 9-1-1 has become an instinct for Americans in need. A service most of us give little thought to, 9-1-1 involves a multitude of routing, mapping, and database functions that must be carefully timed and painstakingly accurate. Whether you call 9-1-1 from Moosonee or Plaquemine, your call is answered by a calltaker in your area. Your address is displayed on the computer screen, and help can be dispatched without a word. All this—the call routing and transmission of the caller's information—happens in mere seconds and is facilitated by the systems and data that SCC maintains.

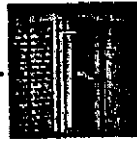
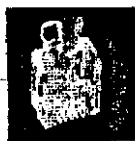
Investing in Safety

Early on in the development of enhanced 9-1-1, forward-looking designers understood the significance of pre-locating the 9-1-1 caller. It requires a series of mapping, routing, and database activities to provide data containing the phone number of the caller followed by the voice portion of the 9-1-1 call. Every physical location with a telephone number is mapped for accurate call routing. This allows the call to be directed to the calltaker in their area. During a 9-1-1 call, the telephone number is tagged on the display of attending information on the calltaker's computer screen—that is, the street address of the caller and the identification of the emergency response unit assigned to that street address. The calltaker instantly knows which response unit to send and where. Coupling location information from an often hysterical caller in the midst of an emergency no longer delays the response. Lives are saved.

At the center of the inner workings of 9-1-1—from caller, to phone network, to calltaker, to response unit—is the database that contains the pre-located information. The information contained in this database must be updated daily. And it must be constantly available. SCC is committed to making this data as accurate as possible.

Americans are constantly moving to new locations, adding new phone lines, and changing service providers. This creates the need to change the 9-1-1 database: telephone subscriber record. The accuracy of the Master Street Address Guide (MSAG) is key to the proper routing of 9-1-1 calls. Over 100 SCC data analysts and supervisors work with our clients' local jurisdictions to ensure the accuracy and timeliness of updates. These data analysts provide support to more than 1,800 MSAG coordinators representing over 2,000 Public Safety Answering Points (PSAPs) in 29 states. The SCC data analysts handle tens-of-thousands of MSAG requests (either adds, changes, or deletes) annually. We manage over 90 million subscriber records. Our investment in safety saves lives and creates value in distribution.

Seamless Performance





ILEC and Direct

Our ILEC business unit is focused on supporting our strong incumbent local exchange carriers. These customers comprised 82% of Regional Bell Operating Companies, represented 82% of SCC's total revenue in 1999. Our ILECs characterize the backbone of SCC's revenue and we continue to look for ways to meet and exceed their expectations. Notably, the ILEC business unit saw a 6.5% increase in subscribers in 1999.

A significant development in wireless services was the rollout of Emergency Warning and Evacuation™ (EWE™) service in the fourth quarter of 1999. EWE is an advanced telephone-based emergency warning service. This service allows police and city agencies to deliver vital emergency information to their citizens through a high-capacity telephone system. Flood threats, wildfires, chemical spills, and hostage situations are all examples of incidents in which EWE can be used to advise people of the level of danger and the best action to take. SCC signed a contract with a major ILEC to co-market this product under the name Emergency Preparedness Network and currently has several sites live.

In 1998, the Direct business unit signed a contract with the State of Texas. This was the first time that a state government chose an alternative provider for 9-1-1 data management. A pilot test period was conducted in Texas in 1999 to demonstrate SCC's ability to independently manage the enhanced 9-1-1 database.

Due to the success of the pilot test, six million subscribers made a commitment to transition to SCC and, as of the end of the first quarter, approximately three million Texas-based records have been transitioned to our database. These records are now generating revenue for SCC. The rest of the committed six million Texas records will be transitioned during 2000. Sales efforts continue to bring the remainder of the approximately 12 million available subscribers in the State of Texas to SCC.

SCC opened an office in Austin, Texas, in 1999. This facility will supplement our customer service and support capabilities.

SCC is extremely proud of our partnership with the state of Texas. Our accomplishments there serve as a model for other states interested in providing reliable, technologically advanced alternatives for public safety services.

SCC manages
over 70 million
subscriber records.²

The SCC Contribution

It has been raining for days. Nearby dams are swelling. Experts predict that, in less than an hour, the Mason Dam will break, flooding a residential area of more than 16,000 residents. County emergency coordinators activate their Emergency Warning and Evacuation plan.

While fleeing danger, you receive a phone call containing a message informing you of a potential danger due to flooding from the Mason Dam. You are asked to evacuate immediately and seek shelter at Parrous Arena. You and your family are safe. SCC's Emergency Warning and Evacuation allows emergency coordinators to launch an emergency warning and notify thousands of residents within minutes. The residents contacted are only those in danger, thus eliminating the confusion caused to others and broadcast warnings.



The SCC Contribution

You sit down to dinner and the phone rings. It's a telephone provider offering you lower rates. Sounds good, so you make the switch and keep your original telephone number. While this seems simple, the ability to keep your existing telephone number when switching providers has become one of the most significant challenges to accurately maintaining the 9-1-1 database.

Established as part of the Telecommunications Reform Act of 1996, Local Number Portability (LNP) requires a series of precisely timed transactions between telephone providers and the 9-1-1 database. A lapse between these transactions could result in missing information during a 9-1-1 call.

In January of 2000, SCC launched a new service initiative: LNP2000™. Directed by a team of specially trained senior analysts, LNP2000 has resulted in substantial improvements in service order timing and administrative processing. LNP2000 is another example of SCC's efforts to reduce the time and level of manual local service providers must expend.

CLEC

Our Competitive Local Exchange Carrier (CLEC) business unit continues to be the fastest growing aspect of our business with its TelConnect™ service offerings. CLEC business represented 12% of SCC's total revenue in 1999. CLEC business increased 244% in 1999 as we activated 11 new CLEC offices. CLEC subscriber growth expanded from 908,000 in the beginning of 1999 to over 3.1 million at the end of the year.

SCC's CLEC business unit established its Alliance Program in 1999. This program creates strategic partnerships with other businesses and vendors to develop and sell high-quality 9-1-1 Operations Support Systems™ (9-1-1 OSS™) for the CLEC market. Our alliances allow us to deploy cost-effective solutions to the market more rapidly.

Among the goals for 2000 is the development of a series of products to increase automation, resulting in the delivery of more cost-effective solutions. The plan also focuses on increasing the prominence of SCC and its value in the marketplace. These goals will be accomplished by continuing to provide an unsurpassed level of customer service, expanding the line of products and services offered by SCC, and establishing partnerships with more OSS vendors.





Wireless

Just as the traditional dial tone providers, emergency services suppliers, and their vendors had enhanced 9-1-1 down to a true science, along comes wireless. Not far behind was the Federal Communications Commission (FCC) mandating requiring the wireless industry to support enhanced 9-1-1 and provide location information to calltakers.

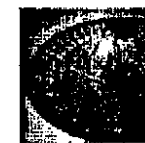
The mandates issued by the FCC in 1996 are referred to as Phase I and Phase II. Phase I location data was to be available as of April 1998 and was to identify the cell sector and cellsite number of the 9-1-1 caller to the calltaker. Funding for the PSAPs and liability issues for the wireless carriers have significantly slowed Phase I implementation. However, passage of the Wireless Communications and Public Safety Act of 1999 has re-emerged deployment efforts, which we hope will bring about positive results for our wireless business unit.

The FCC's Phase II implementation schedule has been set for October 1, 2001 and requires wireless carriers to provide more precise caller location information. Through strategic alliances, SCC is well positioned as a leading provider of Phase I and Phase II service to wireless carriers with its 9-1-1-ConnectSM service offerings.

Despite delays and roadblocks experienced in rolling out Phase I, the Wireless business unit accounted for 5% of SCC's total revenue for 1999. The Wireless group services need an increase of 100% in its subscriber base for Phase I services during 1999, bringing total live subscribers to 728,000. The group has carriers representing 27.1 million subscribers under contract.

Continued rollout of Phase I is a priority for SCC's Wireless business unit in 2000, and our strategy for the deployment of our Phase II solution is aggressive. The result is an innovative solution for Phase I and Phase II wireless services, as well as the positioning of SCC as a leading provider of wireless services.

Approximately 98,000
9-1-1 wireless calls
are made daily*



The SCC Contribution

You're fly fishing in the streams of the Colorado River and nothing could be better. You glance over at your friend a few yards behind you and notice that he has collapsed. As you approach, you realize that he is having a heart attack. You grab your wireless phone and dial 9-1-1. You almost establish your location with the calltaker when the call drops, and your connection is lost. With SCC's 911Connect service, the 9-1-1 calltaker has your cell phone number and is able to call you back. Emergency assistance is on the way.

Surveys show 84% of people who buy wireless phones rank safety as their number one priority.*

SCC understands this importance and is here to provide Phase I and Phase II service to wireless carriers nationwide.

Selected Financial Data

The following selected financial data are qualified by reference to and should be read in conjunction with our financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein. The statement of operations data for the years ended December 31, 1999, 1998 and 1997 and the balance sheet data at December 31, 1999 and 1998 are derived from, and are qualified by reference to, the audited financial statements and notes included herein. The statement of operations data for the years ended December 31, 1996 and 1995 and the balance sheet data at December 31, 1997, 1996 and 1995 are derived from unaudited financial statements not included in this Annual Report.

	1999	1998	1997	1996	1995
(dollars in thousands, except per share data)					
Statement of Operations Data:					
Revenue	\$ 10,096	\$ 10,096	\$ 10,096	\$ 10,096	\$ 10,096
Cost of sales	2,241	2,241	2,241	2,241	2,241
Gross profit	7,855	7,855	7,855	7,855	7,855
Operating expenses	5,138	5,138	5,138	5,138	5,138
Operating income	2,717	2,717	2,717	2,717	2,717
Other income (expense)	1,000	1,000	1,000	1,000	1,000
Income before taxes	3,717	3,717	3,717	3,717	3,717
Income tax expense	1,000	1,000	1,000	1,000	1,000
Net income	2,717	2,717	2,717	2,717	2,717
Basic earnings per share	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27
Diluted earnings per share	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26
Balance Sheet Data:					
Current assets	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Current liabilities	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Long-term debt	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Shareholders' equity	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000

See Note 2 of Notes to Financial Statements for an explanation of the determination of the shares used in computing net income (loss) per share.

Management's Discussion and Analysis of Financial Condition and Results of Operations

This Annual Report contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, (1) lengthy sales cycles associated with our services and products, (2) our reliance on large contracts from a limited number of significant customers, (3) rate of adoption of 3-1-1 technology by wireless carriers, (4) continuing rapid change in the telecommunications industry that may affect us and our customers, (5) continuing demand for our services and products, and (6) additional factors described in our Annual Report on Form 10-K for the year ended December 31, 1999.

Overview

Prior to 1995, substantially all of our revenue was derived from the sale of software licenses and related implementation services to ILECs and public safety agencies. During 1994, we began investing in infrastructure to provide our 3-1-1 OSS® solution to telephone operating companies seeking to outsource such operations. We signed our first 3-1-1 data management service contract in August 1994 and continue to add to the number of records under management. We began to recognize revenue from wireless carriers in the third quarter of 1997, and continue to increase the number of wireless subscribers managed. In addition, we signed a contract with the General Services Administration of the State of Texas in November 1998, representing the first time that a state agency has outsourced its 3-1-1 OSS and data management services with a neutral third party.

Our data management service revenue is derived from contracts with ILECs, CLECs, wireless carriers and a state agency pursuant to which we provide an outsourcing solution for our customers' 3-1-1 data management. Revenue included in data management services generally includes a non-recurring fee for the design and implementation of the 3-1-1 OSS, conversion of the customer's data to our system, testing and training of personnel, and other costs required to prepare for the processing of customer data. Non-recurring fees are recognized on the percentage-of-completion method over the period required to perform the tasks necessary to prepare for the processing of customer data. Our contracts also separately allow for a monthly service fee based on the number of subscriber records under management, which is recognized in the period in which the service is rendered. Data management services revenue also may include revenue from enhanced products and services, which may include non-recurring and/or monthly fees which are separately stated in the contract and are recognized in the period in which the services are performed. Related costs are expensed as they are incurred. Data management services revenue comprised 98% of our total revenue in 1998 and 86% in each of the years ended December 31, 1999 and 1997.

Our license and implementation services revenue is derived from contracts with ILECs pursuant to which we provide a 3-1-1 software license or related products and services such as implementation, training, software maintenance and interfaces to our customers' systems. License and implementation services revenue is recognized using the percentage-of-completion method. The related costs include third-party licenses, direct labor and related expenses, and are expensed as incurred. Subsequent to system installation, we provide our customers with maintenance services that are recognized ratably over the related contract period on a straight-line basis. Our license and implementation services revenue is derived from a limited number of customers and consequently the concentration of customers can result in quarterly fluctuations based on the

timing of the signing of new contracts and completion of existing contracts. Margins on such contracts also may fluctuate based on the elements included in the contract. We completed the license and implementation services contracts we had in place in 1996 and did not sign additional contracts due to our focus on our longer term service contracts. We do not expect to generate significant revenue from license and implementation services during 2000. License and implementation services revenue comprised 1% of our total revenue in 1998 and 11% in each of the years ended December 31, 1999 and 1997.

During the year ended December 31, 1999, we recognized approximately 81% of total revenue from Ameritech, BellSouth Inc. and U.S. WEST, each of which accounted for greater than 10% of our total revenue. During the year ended December 31, 1998, we recognized approximately 73% of total revenue from Ameritech, BellSouth Inc. and U.S. WEST, each of which accounted for greater than 10% of our total revenue. During the year ended December 31, 1997, we recognized approximately 81% of total revenue from Ameritech, BellSouth Inc. and U.S. WEST, each of which accounted for greater than 10% of our total revenue.

In the third quarter of 1998, one of our license and implementation services customers, Bell Atlantic, who had merged with Nynex, announced their decision to standardize their 3-1-1 hardware and software platform utilizing non-SCC systems that had been used by Nynex prior to the merger. In the fourth quarter of 1998, we entered into a Termination, Settlement and Release Agreement with Bell Atlantic, under which Bell Atlantic paid us for work that had been performed prior to cancellation of the contract. This transition occurred over the course of 1999, during which time we continued to support the systems installed in Bell Atlantic and completed fully to ensure a smooth transition of these systems. Bell Atlantic comprised approximately 8% of our total revenue in 1998.

As of December 31, 1999, we had net operating loss carry forwards of \$11.2 million available to offset future net income for U.S. federal income tax purposes. We received \$1.7 million of this deduction allowance on our deferred tax assets in the year ended December 31, 1999 and recorded an additional income tax benefit of \$468,000 from continuing operations in the year ended December 31, 1999, as we believe that it is more likely than not that such tax benefits will be realized. Of the \$912,000 tax benefit recorded in 1998, \$533,000 related to the extraordinary loss from early extinguishment of debt. We expect to incur losses in the near term related to development costs for new commercial products and future taxable income may not be sufficient to realize additional deferred tax assets that will be created by the projected net operating losses. Consequently, we presently expect our statement of operations will not reflect tax benefits for projected operating losses to be incurred during 2000.

In June 1997, we sold the net assets of our Premier Products Division. The sale of our Premier Products Division resulted in a net loss from the sale of \$2.9 million. Net losses from operations of this division totaled \$876,000 and \$228,000 in 1997 and 1998, respectively, and are presented in our financial statements as loss from operations of discontinued divisions. The loss from discontinued operations in 1999 resulted from final closure of unassigned contracts and the transition of customers to the company that acquired this division.

In June and July 1999, we completed an initial public offering of our common stock, which generated proceeds of \$25.0 million, net of the underwriter's discounts and other offering costs and including the exercise of the underwriter's over-allotment option. See Note 2 to the accompanying financial